

City of Montezuma

**Independent Auditor's Reports
Basic Financial Statements
and Supplementary Information
Schedule of Findings and Questioned Costs**

June 30, 2004

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City of Montezuma

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
James M. Hicks	Mayor	January 2008 *
Frank R. Brownell III	Mayor Pro Tem	January 2008 *
Ronald Willrich	Council Member	January 2008 *
Ronald Hedrick	Council Member	January 2008 *
Mark Bolen	Council Member	January 2006
Donald Vos	Council Member	January 2006
Meryll Hicks	Clerk / Treasurer	Indefinite
William J. Sueppel	Attorney	Indefinite

* all reelected in November of 2003

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and aggregate remaining fund information of the City of Montezuma, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Montezuma's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Montezuma as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 9, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated January 18, 2005 on our consideration of the City of Montezuma's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 22 through 23 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Montezuma's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ROLAND & DIELEMAN

Certified Public Accountants

January 18, 2005

Management's Discussion and Analysis

City of Montezuma provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 4%, or approximately \$31,000, from fiscal 2003 to fiscal 2004.
- Disbursements increased 25%, or approximately \$166,000, in fiscal 2004 from fiscal 2003. Public safety, public works, and culture and recreation disbursements increased approximately \$29,000, \$37,000 and \$42,000, respectively.
- The City's total cash basis net assets increased 10%, or approximately \$39,000 from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased approximately \$37,000 and the assets of the business type activities increased by approximately \$76,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, general government and debt service. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, sewer, recycling, and gas systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide information for the water, sewer, recycling, and gas funds, considered to be major funds of the City.

The required financial statements for proprietary funds include a statement of cash receipts,

disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased slightly. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2004	2003
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 88	83
Operating grants, contributions and restricted interest	137	159
General receipts:		
Property tax	431	414
Tax increment financing	49	48
Grants and contributions not restricted to specific purposes	4	4
Unrestricted interest earnings	13	17
Transfers, net	85	51
Total receipts and transfers	<u>807</u>	<u>776</u>
Disbursements:		
Public safety	179	150
Public works	262	225
Health and social services	7	0
Culture and recreation	122	80
General government	102	95
Debt service	169	125
Total disbursements	<u>841</u>	<u>675</u>
(Decrease) Increase in cash basis net assets	(34)	101
Cash basis net assets beginning of year	<u>1,354</u>	<u>1,253</u>
Cash basis net assets end of year	\$ <u>1,320</u>	<u>1,354</u>

The City's total receipts for governmental activities increased by 4%, or \$31,000. The total cost of all programs and services increased by approximately \$166,000, or 25%, with no new programs added this year.

The cost of all governmental activities this year was \$841,000 compared to \$675,000 last year. However, as shown in the Statement of Activities and Net Assets on page 10, the amount taxpayers ultimately financed for these activities was only \$580,000 because some of the cost was paid by those directly benefitted from the programs (\$129,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$132,000).

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year ended June 30,	
	2004	2003
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 385	365
Sewer	76	75
Recycling	55	50
Gas	1,181	1,219
General receipts:		
Unrestricted interest on investments	9	13
Other general receipts	0	18
Total receipts	<u>1,706</u>	<u>1,740</u>
Disbursements and transfers:		
Water	398	382
Sewer	51	54
Recycling	52	48
Gas	1,128	1,214
Total disbursements and transfers	<u>1,629</u>	<u>1,698</u>
Increase (decrease) in cash balance	77	42
Cash basis net assets beginning of year	<u>1,588</u>	<u>1,546</u>
Cash basis net assets end of year	<u>\$ 1,665</u>	<u>1,588</u>

Total business type activities receipts for the fiscal year were \$1.706 million compared to \$1.740 million last year. Total disbursements and transfers for the fiscal year decreased by 4% to a total of \$1.629 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Montezuma completed the year, its governmental funds reported a combined fund balance of \$1,319,884, a decrease of more than \$37,000 from last year's total of \$1,356,947. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The Road Use Tax Fund cash balance decreased by \$64,117 to \$79,157 during the fiscal year. The City used \$70,284 for Main Street Project.
- The Recycling Fund cash balance increased by \$2,733 to \$38,285.
- The Gas Fund cash balance increased by \$58,949 to \$915,849 due to a decrease in operating expenditures.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by \$11,074 to \$413,574, due primarily to an increase in operating expenses over the prior year.
- The Sewer Fund cash balance increased by \$25,864 to \$297,422, due to an excess of revenue over expenditures.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on February 2, 2004 and resulted in an increase in operating disbursements of \$76,250. The second amendment was approved on May 3, 2004 to provide additional disbursements for street improvements of \$70,000. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$1,576,000 in bonds and other long-term debt, compared to approximately \$1,803,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2004	2003
General obligation bonds	\$ 725	840
Urban renewal tax increment financing revenue bonds	251	273
Revenue notes	<u>600</u>	<u>690</u>
Total	\$ <u>1,576</u>	<u>1,803</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,576,000 is significantly below its constitutional debt limit of \$12 million.

Debt decreased due to regularly scheduled payments of the obligations.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

City of Montezuma elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2004 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the residential housing market and modest increases in energy prices in 2003-2004.

These indicators were taken into account when adopting the budget for fiscal year 2005. Amounts available for appropriation in the operating budget are \$4.1 million, an increase of 1% over the final 2004 budget. Property tax (benefiting from the 2004 rate increases and increases in assessed valuations) and charges for services are expected to lead this increase. The City will use these increases in receipts to finance programs we currently offer. Budgeted disbursements are expected to rise by approximately \$37,000. Increased wage, cost-of-living adjustments, and insurance represent the largest increases. The City has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$57,000 by the close of 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Meryll Hicks, City Clerk, Montezuma, Iowa.

City of Montezuma
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2004

Exhibit A

		Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
					Primary Government			
	Disbursements	Charges for Service	Operating Grants Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total	Component Unit
Functions/Programs:								
Primary Government:								
Governmental activities:								
Public safety	\$ 178,665	88,461			(90,204)		(90,204)	
Public works	262,332		121,349		(140,983)		(140,983)	
Health and social services	6,730				(6,730)		(6,730)	
Culture and recreation	121,897		11,105		(110,792)		(110,792)	
General government	102,222	40,917			(61,305)		(61,305)	
Debt service	169,098				(169,098)		(169,098)	
Total governmental activities	<u>840,944</u>	<u>129,378</u>	<u>132,454</u>		<u>(579,112)</u>		<u>(579,112)</u>	
Business type activities:								
Water	398,084	384,933				(13,151)	(13,151)	
Sewer	51,286	76,414				25,128	25,128	
Recycling	52,305	54,918				2,613	2,613	
Gas	1,127,882	1,181,174				53,292	53,292	
Total business type activities	<u>1,629,557</u>	<u>1,697,439</u>				<u>67,882</u>	<u>67,882</u>	
Total Primary Government	<u>\$ 2,470,501</u>	<u>1,826,817</u>	<u>132,454</u>		<u>(579,112)</u>	<u>67,882</u>	<u>(511,230)</u>	
Component Unit:								
Municipal Light and Power Plant	<u>2,675,031</u>	<u>1,840,210</u>						(834,821)
Total Component Unit	<u>\$ 2,675,031</u>	<u>1,840,210</u>						<u>(834,821)</u>
General Receipts:								
Property tax levied for:								
General purposes					305,683		305,683	
Tax increment financing					49,794		49,794	
Debt service					125,753		125,753	
Grants and contributions not restricted								
to a specific purpose					4,143		4,143	14,675
Unrestricted interest on investments					13,075	8,590	21,665	16,431
Bond proceeds								5,079,527
Miscellaneous					<u>43,601</u>		<u>43,601</u>	
Total general receipts and transfers					<u>542,049</u>	<u>8,590</u>	<u>550,639</u>	<u>5,110,633</u>
Change in cash basis net assets					(37,063)	76,472	39,409	4,275,812
Cash basis net assets beginning of year, as restated					<u>1,356,947</u>	<u>1,588,658</u>	<u>2,945,605</u>	<u>1,358,322</u>
Cash basis net assets end of year					<u>\$1,319,884</u>	<u>1,665,130</u>	<u>2,985,014</u>	<u>5,634,134</u>
Cash Basis Net Assts								
Restricted:								
Debt Service					97,611		97,611	
Unrestricted					<u>1,222,273</u>	<u>1,665,130</u>	<u>2,887,403</u>	<u>5,634,134</u>
Total cash basis net assets					<u>\$1,319,884</u>	<u>1,665,130</u>	<u>2,985,014</u>	<u>5,634,134</u>

See notes to financial statements.

City of Montezuma
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2004

Exhibit B

	Special Revenue				Other	
	General	Road Use Tax	Urban Renewal Tax Increment	Capital Projects	Debt Service	Nonmajor Governmental Funds
						Total
Receipts:						
Property tax	\$ 305,683				125,753	431,436
Tax increment financing collections			49,794			49,794
Licenses and permits	3,489					3,489
Use of money and property	16,477			2,765	534	19,891
Intergovernmental	15,248	121,349				136,597
Charges for service	88,461					88,461
Miscellaneous	<u>74,213</u>					<u>74,213</u>
Total receipts	<u>503,571</u>	<u>121,349</u>	<u>49,794</u>	<u>2,765</u>	<u>126,287</u>	<u>803,881</u>
Disbursements:						
Operating:						
Public safety	178,665					178,665
Public works	76,866	185,466				262,332
Health and social services	6,730					6,730
Culture and recreation	121,897					121,897
General government	102,222					102,222
Debt service			<u>43,707</u>		<u>125,391</u>	<u>169,098</u>
Total disbursements	<u>486,380</u>	<u>185,466</u>	<u>43,707</u>		<u>125,391</u>	<u>840,944</u>
Excess of receipts over disbursements	<u>17,191</u>	<u>(64,117)</u>	<u>6,087</u>	<u>2,765</u>	<u>896</u>	<u>(37,063)</u>
Net change in cash balances	17,191	(64,117)	6,087	2,765	896	(37,063)
Cash balances beginning of year	<u>565,046</u>	<u>143,274</u>	<u>20,018</u>	<u>514,694</u>	<u>96,715</u>	<u>1,356,947</u>
Cash balances end of year	<u>\$ 582,237</u>	<u>79,157</u>	<u>26,105</u>	<u>517,459</u>	<u>97,611</u>	<u>1,319,884</u>
Cash Basis Fund Balances						
Reserved:						
Debt service	\$				97,611	97,611
Unreserved:						
General fund	582,237					599,552
Special revenue funds		79,157	26,105			105,262
Capital projects fund				<u>517,459</u>		<u>517,459</u>

See notes to financial statements.

Total cash basis fund balances	\$ <u>582,237</u>	<u>79,157</u>	<u>26,105</u>	<u>517,459</u>	<u>97,611</u>	<u>17,315</u>	<u>1,319,884</u>
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See notes to financial statements.

City of Montezuma
Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds
As of and for the year ended June 30, 2004

Exhibit C

Total governmental funds cash balances	\$ <u>1,319,884</u>
Cash basis net assets of governmental activities	\$ <u><u>1,319,884</u></u>
Net change in cash balances	\$(<u>37,063</u>)
Change in cash balance of governmental activities	\$ (<u><u>37,063</u></u>)

See notes to financial statements.

City of Montezuma
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2004

Exhibit D

	Enterprise Funds				
	Water	Sewer	Recycling	Gas	Total
Operating receipts:					
Charges for service	\$ 373,163	76,414	54,918	1,158,069	1,662,564
Miscellaneous	<u>11,770</u>			<u>23,105</u>	<u>34,875</u>
Total operating receipts	<u>384,933</u>	<u>76,414</u>	<u>54,918</u>	<u>1,181,174</u>	<u>1,697,439</u>
Operating disbursements:					
Business type activities	<u>340,557</u>	<u>51,286</u>	<u>52,305</u>	<u>1,127,882</u>	<u>1,572,030</u>
Total operating disbursements	<u>340,557</u>	<u>51,286</u>	<u>52,305</u>	<u>1,127,882</u>	<u>1,572,030</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>44,376</u>	<u>25,128</u>	<u>2,613</u>	<u>53,292</u>	<u>125,409</u>
Non-operating receipts (disbursements):					
Interest on investments	2,077	736	120	5,657	8,590
Debt service	<u>(57,527)</u>				<u>(57,527)</u>
Total non-operating receipts (disbursements)	<u>(55,450)</u>	<u>736</u>	<u>120</u>	<u>5,657</u>	<u>(48,937)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(11,074)</u>	<u>25,864</u>	<u>2,733</u>	<u>58,949</u>	<u>76,472</u>
Net change in cash balances	<u>(11,074)</u>	<u>25,864</u>	<u>2,733</u>	<u>58,949</u>	<u>76,472</u>
Cash balances beginning of year	<u>424,648</u>	<u>271,558</u>	<u>35,552</u>	<u>856,900</u>	<u>1,588,658</u>
Cash balances end of year	<u>\$ 413,574</u>	<u>297,422</u>	<u>38,285</u>	<u>915,849</u>	<u>1,665,130</u>
Cash Basis Fund Balances					
Reserved for debt service	\$ 275,711	16,760		106,337	398,808
Unreserved	<u>137,863</u>	<u>280,662</u>	<u>38,285</u>	<u>809,512</u>	<u>1,266,322</u>
Total cash basis fund balances	<u>\$ 413,574</u>	<u>297,422</u>	<u>38,285</u>	<u>915,849</u>	<u>1,665,130</u>

See notes to financial statements.

City of Montezuma
Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds
As of and for the year ended June 30, 2004

Exhibit E

Total enterprise funds cash balances	\$ <u>1,665,130</u>
Cash basis net assets of business type activities	\$ <u><u>1,665,130</u></u>
Net change in cash balances	\$ <u>76,472</u>
Change in cash balance of business type activities	\$ <u><u>76,472</u></u>

See notes to financial statements.

City of Montezuma
Notes to Financial Statements
June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Montezuma is a political subdivision of the State of Iowa located in Poweshiek County. It was first incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and gas utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Montezuma has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Montezuma (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit

The Montezuma Municipal Light and Power Plant is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a three member board appointed by the City Council and the Utility's operating budget is subject to the approval of the City Council.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Poweshiek County Assessor's Conference Board and Poweshiek County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities with the exception of those that are financed through enterprise funds.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Gas Fund accounts for the operation and maintenance of the City's gas system.

The Recycling Fund accounts for the operation and maintenance of the recycling program.

C. Measurement Focus and Basis of Accounting

The City of Montezuma maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the culture and recreation, debt service, and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase

agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category I, which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$1,892,930 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, tax increment financing revenue bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Tax Increment Financing (TIF) Bonds	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 130,000	29,363	25,000	18,810
2006	135,000	23,248	27,000	16,748
2007	135,000	16,838	30,000	14,740
2008	145,000	10,360	32,000	12,410
2009	30,000	3,345	35,000	9,690
2010	30,000	1,680	38,000	6,715
2011			<u>41,000</u>	<u>3,485</u>
Total	<u>\$ 605,000</u>	<u>84,834</u>	<u>228,000</u>	<u>82,598</u>

Year Ending June 30,	Water Revenue Notes		Electric Revenue Notes		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 45,000	9,820	55,000	13,548	255,000	71,541
2006	50,000	7,230	55,000	11,128	267,000	58,354
2007	50,000	4,468	60,000	8,680	275,000	44,726
2008	55,000	1,540	65,000	5,980	297,000	30,290
2009			65,000	3,022	130,000	16,057
2010					68,000	8,395
2011					<u>41,000</u>	<u>3,485</u>
Total	<u>\$ 200,000</u>	<u>23,058</u>	<u>300,000</u>	<u>42,358</u>	<u>1,333,000</u>	<u>232,848</u>

The Urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for the purposes which are consistent with the plans of the City's urban renewal area.

The bonds are not a general obligation of the City, however the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$16,075, \$15,992, and \$18,622, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 10,003

This liability has been computed based on rates of pay as of June 30, 2004.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Enterprise		
Water Bond Sinking		\$ 58,140
Water Reserve Fund		6,720
	Enterprise:	
	Water Revenue	<u>64,860</u>
Total		\$ <u>129,720</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$1,341 during the year ended June 30, 2004.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitation. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ending June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City's governmental and business type activities. Beginning net assets have been restated to include the allocation of the Internal Service Fund.

	Governmental Activities	Business Type Activities
Cash basis net assets June 30, 2003, as previously reported	\$ <u>1,356,947</u>	<u>1,588,658</u>
Cash basis net assets July 1, 2003, as restated	\$ <u>1,356,947</u>	<u>1,588,658</u>

(10) Commitments and Contingencies

On September 4, 2002, the City of Montezuma entered into a joint ownership agreement with Mid American Energy and thirteen other municipalities to construct and operate a coal-fired steam electric generating unit in Pottawattamie County, Iowa. The total project cost is approximately \$1,265,000,000 and the city has committed to an investment of approximately \$5,000,000. This commitment will be funded from October 2002 through December 2007 as construction progresses. During the fiscal year ending June 30, 2004, \$642,485 was advanced and \$868,485 has been paid to date to fund the project. The City issued \$5,150,000 of long term bonds to finance this project.

City of Montezuma
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Net	<u>Budgeted Amounts</u>		Final to Net Variance
				Original	Final	
Receipts:						
Property tax	\$ 431,436		431,436	429,396	429,396	2,040
Tax increment financing collections	49,794		49,794	43,710	43,710	6,084
Other city tax				644	644	(644)
Licenses and permits	3,489		3,489	1,100	1,100	2,389
Use of money and property	19,891	8,590	28,481	16,155	16,155	12,326
Intergovernmental	136,597		136,597	156,000	159,750	(23,153)
Charges for service	88,461	1,662,564	1,751,025	1,049,851	1,049,851	701,174
Miscellaneous	<u>74,213</u>	<u>34,875</u>	<u>109,088</u>	<u>50,000</u>	<u>50,000</u>	<u>59,088</u>
Total receipts	<u>803,881</u>	<u>1,706,029</u>	<u>2,509,910</u>	<u>1,746,856</u>	<u>1,750,606</u>	<u>759,304</u>
Disbursements:						
Public safety	178,665		178,665	192,425	208,225	29,560
Public works	262,332		262,332	218,734	297,184	34,852
Health and social services	6,730		6,730	6,500	8,500	1,770
Culture and recreation	121,897		121,897	107,305	107,305	(14,592)
General government	102,222		102,222	122,010	122,010	19,788
Debt service	169,098	57,527	226,625	169,110	169,110	(57,515)
Business type activities		<u>1,572,030</u>	<u>1,572,030</u>	<u>968,466</u>	<u>1,008,466</u>	<u>(563,564)</u>
Total disbursements	<u>840,944</u>	<u>1,629,557</u>	<u>2,470,501</u>	<u>1,784,550</u>	<u>1,920,800</u>	<u>(549,701)</u>
Excess of receipts over disbursements	(<u>37,063</u>)	<u>76,472</u>	<u>39,409</u>	(<u>37,694</u>)	(<u>170,194</u>)	<u>209,603</u>
Excess of receipts and other financing sources over disbursements and other financing uses	(37,063)	76,472	39,409	(37,694)	(170,194)	209,603
Balances beginning of year	<u>1,356,947</u>	<u>1,588,658</u>	<u>2,945,605</u>	<u>3,863,791</u>	<u>3,863,791</u>	<u>(918,186)</u>
Balances end of year	\$ <u>1,319,884</u>	<u>1,665,130</u>	<u>2,985,014</u>	<u>3,826,097</u>	<u>3,693,597</u>	<u>(708,583)</u>

See accompanying independent auditor's report.

City of Montezuma
Notes to Required Supplementary Information - Budgetary Reporting
June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$136,250. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the culture and recreation, debt service, and business type activities functions.

City of Montezuma
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2004

Schedule 1

	<u>Capital Projects</u>	<u>Permanent</u>	
	CDBG	Klindt Memorial	Total
Receipts:			
Use of money and property	\$ <u>91</u>	<u>24</u>	<u>115</u>
Total receipts	<u>91</u>	<u>24</u>	<u>115</u>
Excess (deficiency) of receipts over (under) disbursements	<u>91</u>	<u>24</u>	<u>115</u>
Net change in cash balances	91	24	115
Cash balances beginning of year	<u>15,555</u>	<u>1,645</u>	<u>17,200</u>
Cash balances end of year	\$ <u>15,646</u>	<u>1,669</u>	<u>17,315</u>
Cash Basis Fund Balances			
Unreserved:			
Capital project fund	\$ 15,646		15,646
Permanent fund	<u> </u>	<u>1,669</u>	<u>1,669</u>
Total cash basis fund balances	\$ <u>15,646</u>	<u>1,669</u>	<u>17,315</u>

See accompanying independent auditor's report.

City of Montezuma
Schedule of Indebtedness
Year ended June 30, 2004

Schedule 2

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue notes:									
Electric revenue	03/01/99	4.15-4.65%	\$ 545,000	355,000	0	55,000	300,000	15,940	4,748
Water revenue	07/01/97	5.25-5.6%	430,000	<u>245,000</u>	<u>0</u>	<u>45,000</u>	<u>200,000</u>	<u>12,227</u>	<u>5,521</u>
Total				<u>\$600,000</u>	<u>\$ 0</u>	<u>\$100,000</u>	<u>\$500,000</u>	<u>\$28,167</u>	<u>\$10,269</u>
General Obligation Notes:									
Street	07/01/98	4.25-4.7%	\$ 980,000	545,000	0	100,000	445,000	25,092	1,904
Sewer	05/01/00	5-5.6%	\$ 240,000	<u>180,000</u>	<u>0</u>	<u>20,000</u>	<u>160,000</u>	<u>9,830</u>	<u>688</u>
Total				<u>\$725,000</u>	<u>\$ 0</u>	<u>\$120,000</u>	<u>\$605,000</u>	<u>\$34,922</u>	<u>\$ 2,592</u>
Urban Renewal Tax Increment Financing (TIF) Revenue Bonds									
	02/22/95	8-8.5%	\$ 370,000	<u>\$251,000</u>	<u>\$ 0</u>	<u>\$ 23,000</u>	<u>\$228,000</u>	<u>\$20,708</u>	<u>\$ 1,605</u>

See notes to financial statements.

City of Montezuma
Bond and Note Maturities
June 30, 2004

Schedule 3

Year Ending June 30,	General Obligation Notes Sewer <u>Issued May 1, 2000</u>		General Obligation Bond Street <u>Issued July 1998</u>		Revenue Notes Electric <u>Issued March 1999</u>	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2005	5.35%	\$ 25,000	4.55%	\$ 105,000	4.4%	\$ 55,000
2006	5.4%	25,000	4.6%	110,000	4.45%	55,000
2007	5.45%	25,000	4.65%	110,000	4.5%	60,000
2008	5.5%	25,000	4.7%	120,000	4.55%	65,000
2009	5.55%	30,000			4.65%	65,000
2010	5.6%	<u>30,000</u>		<u> </u>		<u> </u>
		\$ <u>160,000</u>		\$ <u>445,000</u>		\$ <u>300,000</u>

See notes to financial statements.

City of Montezuma
Bond and Note Maturities
June 30, 2004

Schedule 3

Year Ending June 30,	Revenue Notes Water <u>Issued July 1, 1997</u>		Tax Increment Financing (TIF) Bonds <u>Issued February 22, 1995</u>	
	Interest Rates	Amount	Interest Rates	Amount
2005	5.4%	\$ 45,000	8.25%	\$ 25,000
2006	5.50%	50,000	8.50%	27,000
2007	5.55%	50,000	8.50%	30,000
2008	5.6%	55,000	8.50%	32,000
2009			8.50%	35,000
2010			8.50%	38,000
2011			8.50%	<u>41,000</u>
Total		\$ <u>200,000</u>		\$ <u>228,000</u>

See accompanying independent auditor's report.

City of Montezuma
Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds
For the Last Four Years

Schedule 4

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Receipts:				
Property tax	\$ 431,436	414,419	421,509	424,550
Tax increment financing collections	49,794	47,658	50,196	47,478
Use of money and property	19,891	17,747	11,849	60,614
Intergovernmental	136,597	159,142	161,796	171,603
Charges for service	88,461	83,344	44,109	42,128
Miscellaneous	<u>77,702</u>	<u>55,858</u>	<u>39,129</u>	<u>58,553</u>
Total	\$ <u>803,881</u>	<u>778,168</u>	<u>728,588</u>	<u>804,926</u>
Disbursements:				
Operating:				
Public safety	\$ 178,665	150,188	138,109	144,297
Public works	262,332	225,916	209,845	205,793
Health and social services	6,730			
Culture and recreation	121,897	80,391	95,573	70,237
General government	102,222	95,043	94,958	92,138
Debt service	<u>169,098</u>	<u>124,620</u>	<u>123,580</u>	<u>122,278</u>
Total	\$ <u>840,944</u>	<u>676,158</u>	<u>662,065</u>	<u>634,743</u>

See accompanying independent auditor's report.

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Montezuma as of and for the year ended June 30, 2004, and have issued our report thereon dated January 18, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Montezuma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for item II-B-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Montezuma's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Montezuma's ability to record, process, summarize and report financial data consistent with the

assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have been resolved except for item I-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Montezuma and other parties to whom the City of Montezuma may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Montezuma during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

ROLAND & DIELEMAN

Certified Public Accountants

January 18, 2005

City of Montezuma
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

REPORTABLE CONDITION:

I-A-04 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation - We realize that segregation of duties is difficult with a limited number of office employees. However, the City should review the control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

City of Montezuma
Schedule of Findings and Questioned Costs
Year ended June 30, 2004

Part II: Other Findings Related to Statutory Reporting:

- II-A-04 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution was exceeded during the year ended June 30, 2004.

Recommendation - The City should adopt a new resolution increasing the depository amounts.

Response - The City will increase the depository amount.

Conclusion - Response accepted.

- II-B-04 Certified Budget - Disbursements during the year ended June 30, 2004, exceeded the amounts budgeted in the culture and recreation, debt service, and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

- II-C-04 Questionable Disbursements - We did not note disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-D-04 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-E-04 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Jim Hicks, Mayor, Owner Jim's Heating and Air Conditioning	Materials and Labor	\$1,341

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Mayor do not appear to represent conflicts of interest since total transactions with the individual were less than \$1,500 during the fiscal year.

City of Montezuma
Schedule of Findings and Questioned Costs
Year ended June 30, 2003

- II-F-04 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- II-G-04 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-H-04 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- II-I-04 Revenue Bonds and Notes - The City has complied with the revenue bond and note resolutions.

City of Montezuma

Staff

This audit was performed by:

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Royal R. Roland, CPA
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